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REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1990-1991

Net basis budgeting

Report by the Director-General

Summary

Addresses the concerns raised by the External Auditor on the net basis system of budgeting and proposes an alternative.

CONTENTS

		Paragraphs	Page
Introduction		1	1
Chapter			
I.	BACKGROUND	2 - 5	1
II.	AN ALTERNATIVE APPROACH	6 - 9	2
III.	ACTION REQUIRED OF THE COMMITTEE	10	2

Introduction

1. The External Auditor in his report covering the period 1990-1991 (IDB.10/4-PBC.8/9, paras. 79 to 84) has made specific comments on the net basis budget presentation format adopted for the presentation of the 1992-1993 programme and budget estimates. The present paper discusses the net basis system of budgeting and proposes an alternative approach to the presentation of the budgetary estimates.

I. BACKGROUND

2. In the format approved by the Industrial Development Board for the programme and budgets, 1992-1993 (IDB.7/Dec.11), budgetary estimates were to be presented on a "net" basis: reducing the gross estimates by the cost reimbursement income derived from activities of cost-shared joint and common services undertaken in Conference Services and Administration. Thus the net cost of UNIDO activities would be presented for approval to the policy-making organs.

3. Although the programme and budgets for 1992-1993 were subsequently prepared along those lines and duly adopted, some Member States raised questions during the fourth session of the General Conference about the propriety of presenting budgetary estimates on a net basis. The External Auditor has submitted comments and observations to the Secretariat on the preparation of budget estimates on that basis (IDB.10/11-PBC.8/17, paras. 79-84). In those comments and observations, the External Auditor expressed the opinion that the presentation of the estimates in that form did not meet the requirements of universality governing the presentation of budget estimates. They opined that such estimates should include the estimated cost of all transactions, including those with third parties, and the estimates of income relating to those transactions should be shown as such.

4. The External Auditor also observed that the net basis presentation was inconsistent with the Financial Rules and Regulations of UNIDO concerning the presentation of budgetary estimates for income and expenditures.

5. The presentation of the budget estimates contained in the programme and budgets for 1992-1993 (GC.4/42 and Add.1) complied with the format approved by the Board. The approved format indicated more clearly than the previous format the costs of UNIDO programmes to the Member States since it netted the cost of work done for other agencies against the reimbursement received for those services. The budgetary estimates thus

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presented on a net basis were not distorted by the high proportion of cost reimbursable activities carried out in the support areas, particularly in the Department of Administration. Introductory paragraphs 103 and 104 and annex J of the programme and budgets, 1992-1993 (GC.4/42) provide a detailed breakdown of the gross and net costs to UNIDO (at 1991 rates).

II. AN ALTERNATIVE APPROACH

6. Notwithstanding the above arguments in favour of presenting budget estimates on a net basis, the Secretariat recognizes the validity of the External Auditor's observations on the need to ensure that the financial implementation and reporting of the programme and budget income and expenditures for 1992-1993 as well as the presentation of budgetary estimates for 1994-1995 fully comply with the Financial Rules and Regulations.

7. In order to meet the concerns expressed by the External Auditor and to ensure compliance with the Financial Rules and Regulations, a change is required in the basis of presentation and format of the programme and budgets approved by the Industrial Development Board at its seventh session. By way of illustration, the change in presentation of the 1992-1993 appropriations contained in GC.4/42/Add.1 and approved in GC.4/Res.27 would be as follows:

8. The amounts in column 1 reflect the gross estimates including cost reimbursable expenditures; those in column 2 the cost reimbursement income estimates. The appropriation net of cost reimbursement income is shown in column 3. The assessments of Member States would remain unchanged as these are based on the appropriation total shown under column 3 ($181,013,400) less the miscellaneous income estimate of $1,750,600. The resultant sum ($179,262,800 at US$1 = AS 12.90) is the appropriation presented on a net budget basis and approved by the General Conference (GC.4/Res.27, subpara. 3 (a)).

9. The External Auditor has indicated that the presentation of the budget estimates as shown in the table below would meet the requirements of the financial rules and regulations.

III. ACTION REQUIRED OF THE COMMITTEE

10. The Committee may wish to take note of the implications of the net basis presentation of the programme and budgets estimates as contained in the present document and to recommend to the Industrial Development Board that future budget estimates be presented on a gross and net basis, including expenditure and income for cost reimbursable activities.

(In United States dollars)

	Appropriation including reimbursable cost estimates (1)	Cost reimbursement income (2)	Appropriation net of reimbursable costs (3)
Policy-making Organs	2,543,000	-	2,543,000
General Management	6,113,300	-	6,113,300
Programme and Programme Development	33,047,200	-	33,047,200
Industrial Promotion, Consultations and Technology	17,267,800	-	17,267,800
Industrial Operations	35,431,500	-	35,431,500
Common Programmes	15,786,200	-	15,786,200
External Relations, Public Information, Language and Documentation Services	27,172,300	3,627,500	23,544,800
Administration	77,034,200	29,754,600	47,279,600
TOTAL	214,395,500	33,382,100	181,013,400